



State of Washington
Department of Revenue

Excise Tax Advisory

Excise Tax Advisories (ETA) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

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HAZARDOUS SUBSTANCE/PETROLEUM PRODUCTS TAX, VESSELS OPERATING IN WASHINGTON WATERS

Issued July 1, 1993

The Department of Revenue has approved the use of a formula for computing the hazardous substance tax and petroleum products tax on fuel used by vessels operating in Washington waters. This formula may be used for taxable periods beginning July 1, 1993.

Chapter 82.21 RCW imposes an excise tax upon the privilege of possessing hazardous substances, including petroleum products, in this state. The tax is equal to the wholesale value of the hazardous substance multiplied by the rate of seven-tenths of one percent (.007). A credit is allowed for taxes paid on fuel carried from this state in the fuel tank of a ship. RCW 82.21.050 (1).

Chapter 82.23A imposes an additional excise tax upon the privilege of possessing petroleum products in this state. The tax is equal to the wholesale value of the petroleum product multiplied by the rate of fifty one-hundredths of one percent (.005). Petroleum products exported for use or sale outside this state as fuel are exempt from the tax. RCW 82.23A.030 (6). (The petroleum products tax is temporarily suspended when the balance in the account funded by the tax reaches certain levels.)

Consequently, vessels operating in interstate or foreign commerce are liable for both hazardous substance tax and petroleum products tax on the wholesale value of fuel consumed in Washington waters. (Except when the petroleum products tax has been temporarily suspended, in which case only the hazardous substance tax is due.)

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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Because wholesale values of fuel vary widely and measuring actual consumption is difficult, the Department has approved the use of the following formulas for determining the amount of tax due:

Hazardous Substance Tax (H)

$$H = \text{Miles} \times ((\text{IFO consumption rate} \times .8 \text{ MDO price} \times .007) + (\text{MDO consumption rate} \times .8 \text{ IFO price} \times .007)) + \$.50$$

Petroleum Products Tax (P)

$$P = \text{Miles} \times ((\text{IFO consumption rate} \times .8 \text{ IFO price} \times .005) + (\text{MDO consumption rate} \times .8 \text{ MDO price} \times .005)) + \$.50$$

"Miles" means the number of nautical miles traveled in Washington waters using point-to-point distances shown on the accompanying chart (see page 3 of this bulletin). All distances shown on the chart are one way. Vessels entering Puget Sound from the ocean are considered as having first entered Washington waters at buoy "J." Vessels leaving Puget Sound to return to the ocean are considered as having left Washington waters at Port Angeles. The distances between points on the Columbia River are one half of actual distances based on the assumption that half of the travel occurs in Oregon Waters.

"IFO" means intermediate fuel oil, which is used in the engines that supply power to the vessel's propulsion system.

"MDO" means marine diesel oil, which is in the generators that supply electricity for the vessel's electrical system.

"Consumption rate" means the IFO or MDO consumption rates, expressed in terms of metric tons per nautical mile, shown on the accompanying chart. Vessels burn both IFO and MDO while underway. In addition, vessels burn MDO (but not IFO) while at anchor or in port. The consumption rate of MDO on the chart has been increased slightly to take this into account.

"Price" means the average Seattle retail price per metric ton for IFO or MDO reported in Platts Oilgram for the second preceding quarter. (For example, the average Seattle prices reported for the first quarter of 1993 would be used for computing taxes due for the third quarter 1993, second quarter 1993 prices would be used for computing fourth quarter 1993 taxes, third quarter 1993 prices would be used for computing first quarter 1994 taxes, and so on.)

".8" is the factor multiplied by IFO and MDO prices, which are retail prices, to arrive at an approximation of wholesale value.

".007" is the rate of the hazardous substance tax.

".005" is the rate of the petroleum products tax.

"\$.50" is added to both calculations to account for the relatively small amount of lubricant that is consumed while in Washington waters.

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For further information on the hazardous substance tax and the petroleum products tax, please see WAC 458-20-252.